

# FDIC State Profile

Winter 2005

## South Dakota

South Dakota's economy continued its sustained expansion in the third quarter, but manufacturing remained weak.

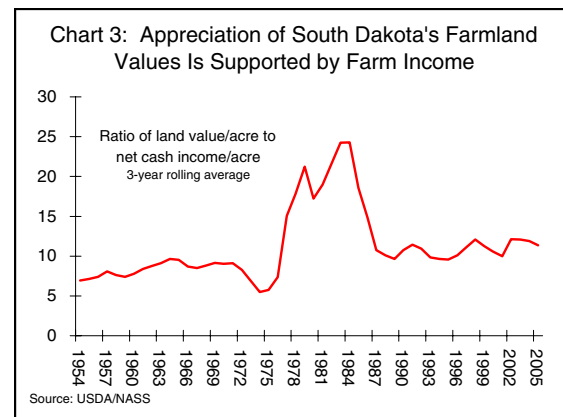
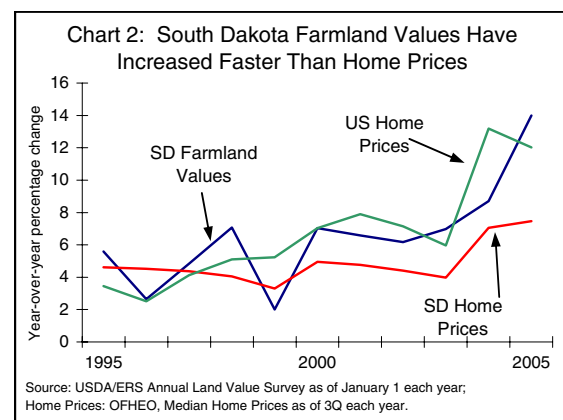
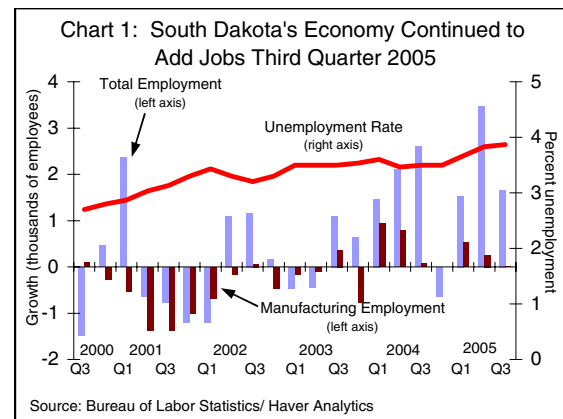
- South Dakota's economy gained more than 1,700 jobs in the third quarter, contributing to an increase of more than 6,700 jobs through the first nine months of 2005, already exceeding the gains achieved in all of 2004 (see Chart 1).
- Despite continued strong recovery in the state's overall economy, its manufacturing sector added no net jobs in third quarter 2005. The sector has recovered only 2,200 of the more than 6,000 jobs lost in the state during the 2000 to 2003 downturn.
- Despite sustained job increases, South Dakota's unemployment rate increased slightly to 3.9 percent in the third quarter as job seekers entered the labor force at a rate faster than jobs were added.

**The value of South Dakota farmland surged 14 percent in 2005.**

- South Dakota's home prices have appreciated considerably less than the national average and less than farmland values in the state (see Chart 2).
- According to the United States Department of Agriculture, South Dakota farmland values increased 14.0 percent to \$570 per acre in 2005. While \$570 is a record for South Dakota farmland value in nominal terms, when adjusted for inflation, the 2005 farmland price was 92 percent of that achieved in 1981, when farmland values reached historic levels.

**South Dakota's farmland values have been strongly related to net cash farm income during the last 20 years.**

- The price-income ratio of South Dakota's farmland value to net cash farm income (per acre) has historically varied over a narrow range. From 1985 to the present, the ratio was stable at about 11, implying a steady relationship between farmland value and the level of cash income produced on the land during that period (see Chart 3). The price-income ratio had skyrocketed to 22 from 1976 to 1984, reflecting the spike in land prices during that period.



## State Profile

- Increases in farmland value during the 2000 to 2005 period have been matched by comparable increases in net cash farm income.

**South Dakota insured institutions report continuing strong operating results, but deposit disintermediation appears to have returned.**

- Third quarter earnings performance remained positive. Median net interest margin increased 19 basis points from one year earlier to 4.65 percent and median return on assets was 1.40 percent. Additionally, strong loan growth continued. The third quarter 2005 median loan-to-asset ratio increased 2.6 percentage points from the third quarter 2004 to 70.8 percent after increasing 1.2 percentage points from the similar 2003 to 2004 period.
- While institution deposit-to-asset ratios stabilized from 2000 to 2003, coinciding with declining desirability of alternatives to deposits such as stock investments, the resurgence of equities is again causing deposit levels to lag (see Chart 4).

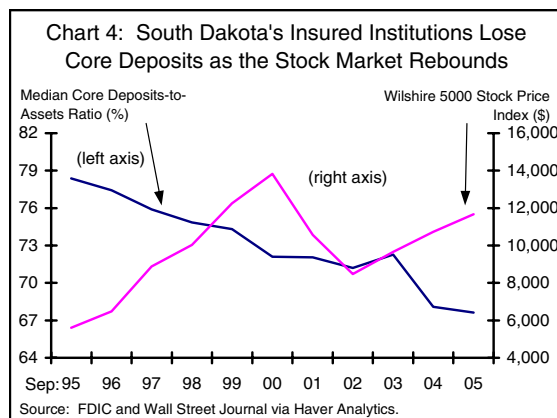
**Stronger demographics lead to higher deposit growth rates in South Dakota's metropolitan areas.**

- Annual Summary Deposits data as of June 30, 2005, show that deposit growth among community bank branches in South Dakota's metropolitan areas has substantially outpaced the rest of the state over the past five years.<sup>1</sup> Primarily, this is indicative of the growing polarity in South Dakota's population growth (see Table 1).
- Seeking better growth opportunities, an increasing number of nonmetropolitan-based institutions in South Dakota are opening branches in metropolitan areas. In 1995, 14 percent of banks headquartered in nonmetropolitan South Dakota had branches in metro areas. That proportion has steadily increased, registering 17 percent in 2000 and 20 percent in 2005.
- Although branching into metro areas might provide increased deposit growth opportunities for some institutions, it might also subject them to greater direct competition with significantly larger institutions.

**Statewide bank branch growth continues in South Dakota, and large bank control increased as well.**

- Bank branch growth in South Dakota remained strong during the past year. From June 2004 to June 2005 the number of bank branches in South Dakota increased 2.5 percent to 459 branches.

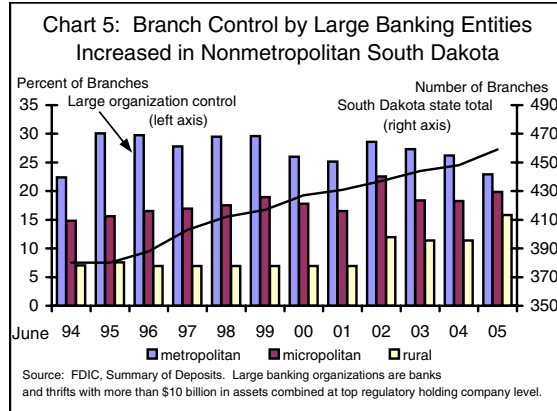
- The growth was concentrated in South Dakota's metropolitan and micropolitan centers. **Rapid City** added four branches, an increase of 11.8 percent and **Sioux Falls** added two branches, an increase of 1.7 percent.
- Branch control by larger bank organizations—those with combined assets of \$10 billion or more—declined for the third consecutive year in metropolitan centers but increased in micropolitan areas and especially rural areas (see Chart 5).



**Table 1: Community Bank Deposit Growth Is Stronger in South Dakota's Metropolitan Areas**

South Dakota Branch Location	Deposit Growth	Population Growth
Metropolitan	7.1	1.7
Micropolitan	4.8	-0.1
Rural	3.4	-0.5
<b>Statewide</b>	<b>4.3</b>	<b>0.5</b>

Source: FDIC, U.S. Census Bureau, Community banks in operation since at least 1997. Annualized growth rates: deposits '00-'05, population : '00-'04.



<sup>1</sup>For this Profile, the term "branches" includes banking facilities in main offices and branch locations.

## South Dakota at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.6%	1.6%	1.6%	1.3%	0.2%
Manufacturing (10%)	2.1%	2.2%	4.3%	3.3%	-1.8%
Other (non-manufacturing) Goods-Producing (6%)	4.9%	6.0%	1.6%	1.9%	3.5%
Private Service-Producing (65%)	1.5%	1.3%	1.7%	1.3%	0.2%
Government (19%)	0.8%	0.9%	0.0%	0.4%	0.5%
Unemployment Rate (% of labor force)	3.9	3.8	3.5	3.5	3.5
<b>Other Indicators</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	4.1%	5.6%	6.2%	8.8%
Single-Family Home Permits	26.9%	3.8%	-7.1%	15.8%	7.7%
Multifamily Building Permits	-57.1%	-5.5%	49.5%	57.7%	16.1%
Existing Home Sales	10.5%	2.5%	9.7%	10.9%	4.7%
Home Price Index	7.5%	8.0%	7.0%	6.2%	4.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.47	4.32	3.40	3.67	3.56

**BANKING TRENDS**

<b>General Information</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	91	91	93	91	94
Total Assets (in millions)	448,752	433,468	439,157	442,453	85,420
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	37	37	35	33	32
<b>Asset Quality</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.63	1.31	1.39	1.47	1.95
ALLL/Total Loans (median %)	1.49	1.50	1.64	1.62	1.75
ALLL/Noncurrent Loans (median multiple)	2.39	2.91	1.93	2.69	2.11
Net Loan Losses / Total Loans (median %)	0.01	0.01	0.03	0.10	0.18
<b>Capital / Earnings</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	11.09	11.06	11.24	10.70	10.72
Return on Assets (median %)	1.54	1.45	1.41	1.32	1.15
Pretax Return on Assets (median %)	1.98	1.89	1.89	1.65	1.57
Net Interest Margin (median %)	4.62	4.63	4.51	4.46	4.30
Yield on Earning Assets (median %)	6.78	6.46	6.23	6.14	6.31
Cost of Funding Earning Assets (median %)	2.12	1.89	1.58	1.61	1.90
Provisions to Avg. Assets (median %)	0.04	0.00	0.05	0.08	0.09
Noninterest Income to Avg. Assets (median %)	0.74	0.66	0.67	0.65	0.63
Overhead to Avg. Assets (median %)	3.11	3.14	3.09	3.24	3.18
<b>Liquidity / Sensitivity</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	70.8	70.9	68.2	68.4	66.7
Noncore Funding to Assets (median %)	18.4	17.1	16.9	15.6	13.0
Long-term Assets to Assets (median %, call filers)	13.0	13.4	14.0	13.4	12.8
Brokered Deposits (number of institutions)	31	28	29	25	23
Brokered Deposits to Assets (median % for those above)	3.8	3.7	3.4	3.4	3.1
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	88.2	89.7	86.7	84.6	82.2
Commercial Real Estate	55.8	56.7	45.1	55.9	41.2
Construction & Development	6.9	4.7	2.3	3.2	2.0
Multifamily Residential Real Estate	0.0	0.0	0.0	0.0	0.0
Nonresidential Real Estate	40.1	42.0	33.2	35.7	37.0
Residential Real Estate	34.7	34.8	37.7	35.8	34.6
Consumer	46.9	43.5	47.2	50.4	50.1
Agriculture	227.0	219.9	228.1	230.2	242.3

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Sioux Falls, SD	32	32,171	< \$250 million	69 (75.8%)
Sioux City, IA-NE-SD	34	2,051	\$250 million to \$1 billion	16 (17.6%)
Rapid City, SD	13	1,538	\$1 billion to \$10 billion	4 (4.4%)
			> \$10 billion	2 (2.2%)